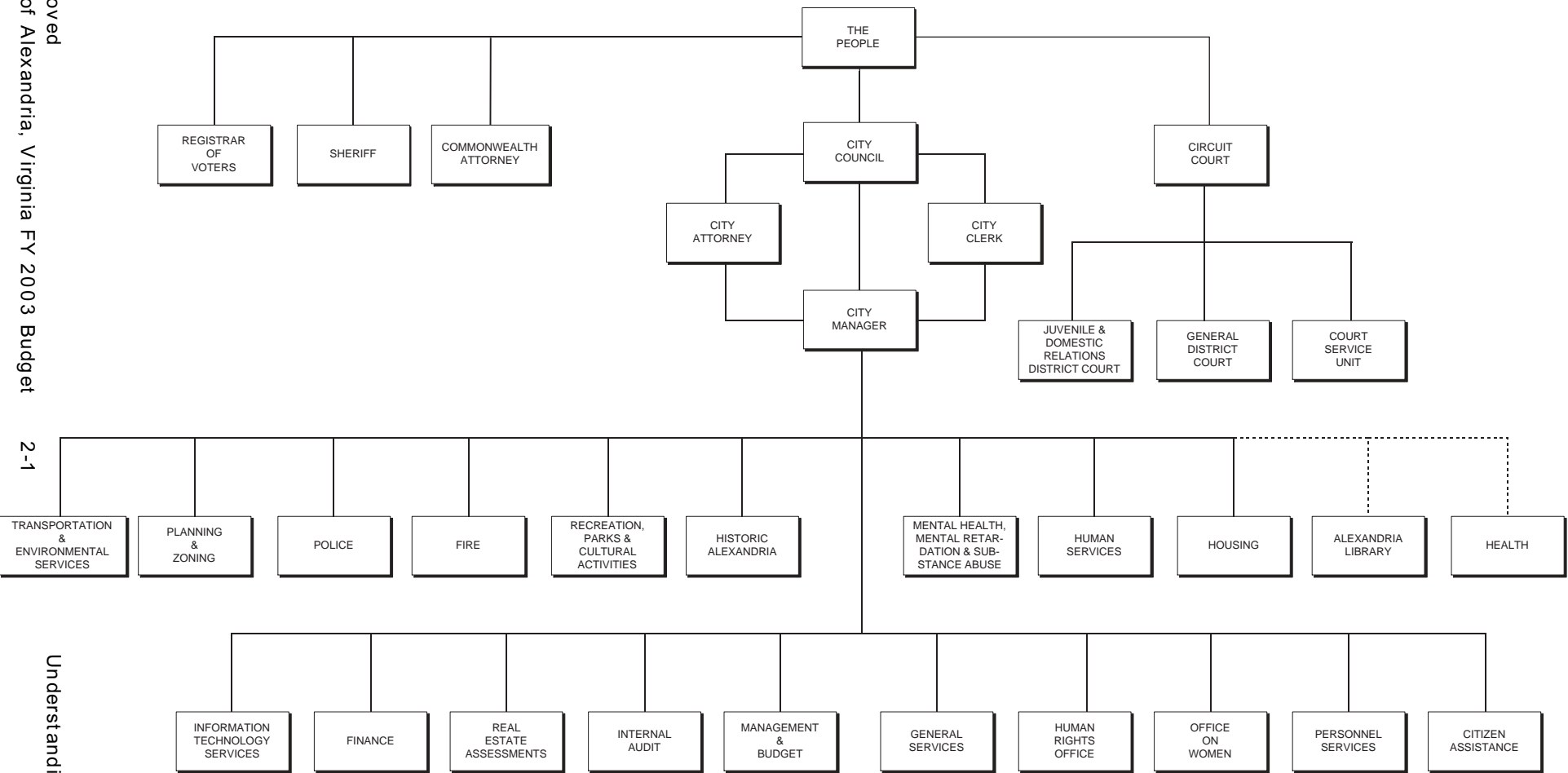


ALEXANDRIA CITY GOVERNMENT



Understanding the Budget

The City's budget serves as the blueprint for the financial and policy decisions that City Council will implement during the fiscal year. Budgeting is necessary for several reasons.

First, the budget is a fiscal plan. Budgeting provides estimates of the costs that will be incurred if activities are carried out as planned; the revenues necessary to finance these activities; and the rates of taxation necessary to generate these revenues. The appropriation ordinance adopted by the City Council establishes the legal authorization for the expenditure of public monies and becomes the approved financial plan of action for the upcoming fiscal year.

Second, the budget is a management tool. The budget process provides an opportunity for the City Manager, department directors and agency heads to evaluate the City's services and recommend the best means of allocating resources to provide effective and efficient government services. Program goals, objectives, descriptions and activities are linked to performance measures that are detailed in the budget, as are the costs and resources required to meet the goals and objectives. As a management tool, the budget serves to establish accountability for the effective and efficient operation of specific programs and to locate responsibility for the delivery of City services.

Beginning with City Council's consideration of FY 2003 budget issues, which were first discussed at the Council retreat held on November 3, 2001, and framed in the City's 2001 Annual Report, and continuing through the adoption of the FY 2003 budget on May 6, 2002, the budget process provides numerous opportunities for citizens to review and comment on the budget and the degree to which it is responsive to the City's needs. In the face of competing demands for access to finite resources, citizen involvement in the formulation of the budget is vital to the ordering of priorities and informed decision making.

FY 2003 Budget Planning

The formative stage of the FY 2003 budget process began with City Council's discussion of the budget outlook for the coming fiscal year, July 1, 2002, through June 30, 2003, at the November 2001 retreat. Staff briefed the City Council on the economy outlook at the national, state and regional levels, in light of the recession and the events of September 11. At the time of the November retreat, staff cautioned that final FY 2001 revenue receipts indicated that the rates of growth in several revenue sources, including personal property, sales, restaurant meals and business license, had slowed. Staff also identified budget contingency planning processes that had been put in place on the expenditure side to address the future economic uncertainty. Non-public safety agencies were asked to identify 3 percent savings in the operating budget and 15 percent savings in the capital budget. Expenditure challenges for FY 2003 included personnel expenditure increases for merit increases for City and Schools employees and \$2.5 million for each one percent of a cost of living adjustment for all employees. Other expenditure challenges identified at the retreat were an anticipated increase in health insurance premiums and increases in debt service from the July 2001 bond sale.

Other Continuing Policy Guidance and Planning

Youth Issues: The Youth Policy Commission, chaired by Mayor Kerry J. Donley, convened in December 1997. This Commission had its origins in previous staff work on a comprehensive study of youth services in the City.

The Commission established three subcommittees to examine youth issues by stages of youth development: prenatal through early childhood (ages 0-5), school age (ages 6-11) and adolescence (ages 12-21). The five areas of Youth Well-Being examined by the subcommittees are Health, Education, Safety, Economic Security, and Recreation. During its first year of work, the Commission adopted goals, outcomes and indicators of success for these five areas. Currently, the Commission is continuing work on gathering and examining measures, comparative data, as well as funding data. As the Commission continues its work in the coming year, a key objective will be to foster a joint enterprise with the Schools, City departments and community agencies to address youth issues together.

The focus of the Youth Policy Commission's work for the second year, 1999, was to analyze youth services and funding; select community measures for evaluating the City's progress toward the vision for youth well-being; recommend a coordinated City youth policy; and develop strategies to implement that policy. The Commission established three subcommittees that met from February 1999 to October 1999 to select evaluative measures and conduct analyses along the five categories of youth well-being. After reviewing the subcommittees' findings, the Commission determined that the City's youth services need to target prevention and family building if our youth are to be properly prepared for the future. In sum, the Commission saw prevention and family building as the prism through which City services and funding strategies should be evaluated, and concluded that a coordinated, City-wide approach to serving youth is needed.

On February 12, 2000, the Commission recommended, and City Council adopted, the following vision statement for youth services in the City:

Alexandria is a community where diversity is embraced, and children are born healthy and grow up safe, nurtured, well-educated and prepared for life.

City Council also adopted the following policy statement:

It is the Youth Policy of the City of Alexandria to emphasize prevention, and to target activities that effectively promote positive outcomes for youth and support families through optimal use of existing funds, development of new resources, and engagement of the community.

The Council requested that the City Manager develop a strategy to implement this vision and policy within the City government, as follows:

- conduct an evaluation, using the Youth Policy Commission (YPC) subcommittees' recommendations as a framework, to determine the effectiveness of existing efforts in prevention and family building within City departments;

- optimize the use of existing resources and find new resources to enhance and develop new programs that address YPC recommendations; and
- emphasize outreach to working poor families with a focus on removing cultural and language barriers in the delivery of services.

Any initiatives that require new or reallocated funding would be proposed in the annual budget process, and the Commission will monitor success in achieving goals for youth through an annual Community Report Card.

Debt-Related Financial Policies: The City Council's debt-related financial policies, which guide decision-making throughout the annual operating and capital budget development cycle, are printed in the Appendices section of this document, and the City's Proposed FY 2003 to FY 2008 Capital Improvement Program (CIP) is fully consistent with these policies.

Compensation Philosophy: On May 27, 1997, City Council adopted the City of Alexandria's Compensation Philosophy, which is intended to provide a broad framework to help with the City Council, management, employees and the citizens in order to understand and guide decisions that affect City employee pay. The Compensation Philosophy is printed in the Appendices section of this document. Approved FY 2003 employee compensation adjustments are recommended based on the guidance provided by the Compensation Philosophy.

Long Range Quality of Life Planning: Several initiatives have recently been established or are still being formulated to address the quality of life of citizens City-wide, including the availability of affordable housing, the preservation of open space, a City-wide assessment of recreation and leisure needs, and a City-wide transportation policy and plan.

The Annual Report and Budget Preparation Process

The City's 2001 Annual Report, which reviewed major past and prospective issues, trends and budget constraints facing City Council in the coming year, provided a framework to help with the development of the FY 2003 Budget. The Annual Report supplemented the discussion of budget and policy issues at the City Council Retreat.

For the FY 2003 budget process, Departments and agencies submitted detailed operating budget requests to the Office of Management and Budget (OMB) from September through December, in accordance with procedures and guidelines established by the City Manager. OMB and City Manager's Office staff met with departments and agencies during the formative stages of budget development to discuss major issues facing the agencies following years of flat or reduced budgets. Given the FY 2003 fiscal situation the City Manager indicated that only the most critical supplementals would be considered for funding.

The budget requests of City agencies and departments included basic and supplemental requests. Basic requests are requests to finance currently mandated or authorized services within guidelines, or ongoing expenditures. Supplemental requests, which are identified in each department's budget text, are requests to finance the following:

- * personnel expenditures in addition to those authorized in the past year;
- * non-personnel expenditures which exceed those required to maintain the currently authorized level and scope of services; and
- * capital outlays for all new equipment and for replacement of equipment with items having substantially greater capabilities than the items being replaced.

After analyzing the budget requests, OMB continued discussions with department and agency heads from November through January to formulate recommendations to the City Manager. In January, the City Manager, the City Manager's staff and OMB met with all departments that were requesting supplemental funding for new positions or initiatives. The City Manager's Proposed FY 2003 Budget reflects the Manager's consideration of these requests in light of revenue limitations and competing expenditure demands. The Manager's top priority initiatives are reflected in the Budget Message.

Consistent with the policy followed in recent years' budget processes, the City's budget calendar provides sufficient time to incorporate consideration of the School Board's Adopted FY 2003 Budget prior to the presentation of the City Manager's Proposed FY 2003 Budget. As a result, the City Manager's Proposed FY 2003 Budget was presented to City Council at the Council's March 12, 2002, legislative meeting.

As presented to City Council, the FY 2003 Proposed budget reflects substantial increased residential assessments the slower growth in the local economy, a cautiously positive prediction of the economy's future, expected reductions in State aid, and a decrease in the real estate tax rate. The FY 2003 budget maintains current levels of service and includes the following highlights:

- a three cent reduction in the Real Property tax rate from \$1.11 to \$1.08;
- full funding of the Schools' original operating budget request;
- increased funding for additional public safety personnel;
- creation of a fund to implement new affordable housing initiatives;
- competitive compensation increases for City and Schools employees; and
- increased cash capital funding.

Organization of the Budget Document

In addition to presenting the City's financial plan, the budget document is intended to be a resource and reference guide, providing information on City programs and services. The budget document has been divided into two volumes: one containing the Operating Budget document and the other containing the Capital Improvement Program document.

- * The Operating Budget document groups City operating departments together by general government program areas, using the program categories defined by the Auditor of Public Accounts for the Commonwealth of Virginia (APA) as a guide. This organization is offered to assist the public in gaining an understanding of the total resources provided in a particular program area.

Section I includes the City Manager's Message. Section II summarizes the budget process, provides general budget guidance, and includes a two page summary of the approved funding level changes in the General Fund budget. Section III is the "City Facts and Figures" summary; Section IV provides revenue and expenditure summaries,

various charts and schedules that provide overall information on the City's finances, and multi-year revenue and expenditure forecast scenarios. Sections V through IX present budget information for each department. The major elements in these sections are organizational charts, graphs, goals, program descriptions, performance indicators and measures, and a summary of the budget proposal and supplemental budget requests. These sections also contain statements of estimated expenditures for each City department, classified into three expenditure categories (or expenditure "characters"): Personnel Services, Non-personnel Services and Capital Outlays. In an effort to increase the informational value of each department budget, a breakout of expenditures and staffing by division has been included for each department, where applicable.

Section X is comprised of Appendices, which include the salary schedules and classification structures applicable to the City government, the Alexandria Compensation Philosophy, legislative references and charter provisions relating to the budget, and a "Layperson's Guide to Fund Balance," based on a report prepared by the Council-appointed Budget and Fiscal Affairs Advisory Committee.

Section XI is the Program/Services Index, providing a locator guide to program information in the Operating Budget document.

- * The Capital Improvement Program document describes each capital project that the City plans to undertake over the next six years. This description includes a justification for each project, the priority assigned to the project and the estimated impact of each capital project on the City's budget throughout the six-year period. (Detailed information on individual school capital projects is presented in the Alexandria City Public Schools 2002-2003 Capital Budget, available from the Office of the Assistant Superintendent for Financial and Administrative Services, 2000 North Beauregard Street, Alexandria, Virginia.)

Budget Amendments

During the fiscal year, the approved budget can be amended by either the reappropriation ordinance (generally in December) or the supplemental appropriation ordinances (generally three to four times during the fiscal year). A reappropriation ordinance allows encumbered monies from the previous fiscal year to be recognized in the current fiscal year. These encumbered monies are specifically identified within the previous fiscal year's Comprehensive Annual Financial Report (CAFR). A supplemental appropriation ordinance amends the budget for grant programs to reflect actual revenue received and to make corresponding balancing adjustments in grant program expenditures. A supplemental appropriation also amends the budget for duly docketed City Council items during the fiscal year that increase or reduce the current fiscal year appropriation. A supplemental appropriation ordinance may, therefore, either increase or reduce the City's total budget from the original approved budget appropriation.

The approved budget may also be amended by City Council at the end of the fiscal year via a resolution to transfer appropriations to adjust the various departmental accounts according to projected final expenditure patterns. The transfer of appropriations has no net impact on the aggregate approved budget amount, but rather enables the Council to adjust the budget of a given department for unanticipated expenditures.

Budget transfers within a department may be approved by the City Manager, as discussed in the following section on Budgetary Accounting.

Budgetary Accounting

The City's financial operations are budgeted and accounted for in a number of "funds." A fund is an independent fiscal and separate accounting entity, with a self-balancing set of accounts including revenues and expenditures, assets and liabilities. Separate funds that have been established by the City include the following:

- The General Fund is the primary operating fund of the City. This fund is used to account for all financial transactions and resources except those required to be accounted for in another fund. A detailed estimate of General Fund balance available for appropriation for general operating expenditures is provided in the Statement of Estimated Undesignated General Fund Balance, in Section IV of this document.

The following table and the descriptive material following the table are intended to respond to the Government Finance Officers Association (GFOA) budget document presentation requirement that a fund balance projection be included for each fund, in addition to the General Fund, established by the City. The other funds, discussed below, include the Special Revenue Fund, Capital Projects Fund, Enterprise Fund, and Internal Services Fund.

Governmental Funds			Proprietary Funds		
	Special Revenue Fund	Capital Projects Fund ⁴		Enterprise Fund (Recycling Fund) ⁵	Internal Services Fund (Equipment Replacement Fund)
Beginning Fund Balance 7/1/01 ¹	\$12,589,293	\$61,671,985	Beginning Net Assets 7/1/01	\$1,304,635	\$16,889,251
Plus FY 2002 Budgeted Revenues ²	\$72,653,507	\$50,134,344	Plus FY 2002 Budgeted Revenues	\$179,407	\$3,782,411
Less FY 2002 Budgeted Expenditures ²	\$72,653,507	\$53,527,463	Less FY 2002 Budgeted Expenses	\$733,062	\$4,117,649
Projected Fund Balance 6/30/02	\$12,589,293	\$58,278,866	Projected Net Assets 6/30/02	\$750,980	\$16,554,013
Plus FY 2003 Budgeted Revenues ³	\$74,425,612	\$54,678,360	Plus FY 2003 Budgeted Revenue	\$0	\$3,891,653
Less FY 2003 ³ Budgeted Expenditures	\$74,425,612	\$112,957,226	Less FY 2003 Budgeted Expenses	\$750,980	\$5,435,262
Projected Fund Balance 6/30/03	\$12,589,293	\$0	Projected Net Assets 6/30/03	\$0	\$15,010,404

/1 City of Alexandria, Virginia, Comprehensive Annual Financial Report, Fiscal Year Ended June 30, 2001

/2 City of Alexandria, Virginia, Approved Operating Budget, Fiscal Year 2002

/3 City of Alexandria, Virginia, Projected Operating Budget, Fiscal Year 2003

/4 In all likelihood a large portion of Capital Projects will not be expended in FY 2002 and FY 2003, as many capital projects are multi-year in execution.

/5 Assumes planned phase out of the Enterprise Fund at the end of Fiscal Year 2003.

- The Special Revenue Fund accounts for resources restricted to expenditures for specified purposes (for example, State and federal grants). As of June 30, 2001, the Special Revenue Fund unreserved fund balance was \$12,589,293. Because monies budgeted within the Special Revenue Fund are generally legally restricted to specific activities or programs, these monies are not considered available for appropriation to meet general expenditure requirements. Unexpended Special Revenue Fund monies are generally due to intergovernmental grant timing differences (e.g., a grant awarded to the City for a program operated under the federal fiscal year of October 1 to September 30), and remaining Special Revenue funds at June 30 are reappropriated for use in the subsequent City fiscal year for the continuation of the designated programs. The total projected Special Revenue Fund fund balance, for GFOA reporting purposes, as of June 30, 2003, is \$12,589,293.
- The Capital Projects Fund accounts for all financial resources used for the acquisition or construction of major capital facilities not being financed by proprietary funds. As of June 30, 2001, the Capital Projects Fund had a total fund balance of \$61,671,985. This funding is dedicated to the completion of approved capital projects, and is therefore not available to meet general expenditure requirements. The total projected Capital Projects Fund fund balance as of June 30, 2003, would be \$0 assuming all budgeted capital projects are initiated and completed. Given implementation issues and plans and their multi-year nature, many of these capital projects will not be completed by June 30, 2003.
- The Enterprise Fund accounts for operations that are financed in a manner similar to private business enterprises, where the intent is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. The FY 2003 budget includes one Enterprise Fund: the Recycling Fund, which is used to account for the expenditures and revenues (sales of recyclable materials) associated with the City's refuse recycling programs. Because the City has implemented GASB Statement No. 34, *Basic Financial Statements- and Management's Discussion and Analysis - for State and Local Governments* Proprietary Funds now reflect Net Assets. As of June 30, 2001, the Total Net Assets for the Recycling Enterprise Fund were \$1,304,635. This Fund will be discontinued at the end of FY 2003, and as of June 30, 2003, the projected Enterprise Fund Total Net Assets for GFOA reporting purposes are \$0.
- The Internal Services Fund accounts for the financing of goods or services provided by one department to other departments or agencies of the City on a cost-reimbursement basis. The City established the Equipment Replacement Fund for purposes of providing for the accumulation of money to replace capital equipment items used in City operations. This fund derives its revenues from periodic equipment rental charges assessed to the user departments in the governmental funds. These revenues are then used to finance depreciation charges and associated expenditures to replace capital equipment. As of June 30, 2001, the Equipment Replacement Internal Services Fund had Total Net Assets of \$16,889,251. Equipment Replacement monies are accrued for the scheduled replacement of capital equipment, and thus are not available for appropriation to meet general expenditure requirements. The projected Equipment Replacement Fund Total Net Assets, for GFOA reporting purposes, as of June 30, 2003 is \$15,010,404. It should be noted that the bulk of the Net Assets represents the value of equipment (such as refuse collection vehicles and police cars) currently in use within the City government.

All tax revenues and most other revenues -- with the notable exception of State and federal grants -- are budgeted and accounted for in the General Fund. Likewise, all expenditures funded by General Fund revenues are budgeted as direct General Fund expenditures.

This "direct" treatment of expenditures is a concession to a more informative budget presentation. Technically, certain expenditures funded by General Fund revenues -- specifically, grant matches and the City appropriation to the Alexandria City Public Schools -- are accounted for as "transfers out" of the General Fund, "transfers in" to Special Revenue Funds and "expenditures" of Special Revenue Funds. Conceptually, however, these are expenditures of General Fund revenues.

In contrast with the accounting for private enterprises, where the primary focus is the calculation of profits and losses, governmental accounting is directed toward expenditure control and budgetary compliance. The accounting system's budgetary control function is accomplished by incorporating budgetary accounts into fund ledgers and recording appropriations -- expenditure authorizations adopted by City Council. All appropriations are legally controlled at the department level for the General Fund and Special Revenue Funds.

Budgets are prepared for the Capital Projects Funds on a project basis that cover the life of the project. The Enterprise Fund and the Internal Service Fund are controlled at the total Net Assets level.

Appropriations are administratively controlled at the "character" level of expenditure -- personnel, non-personnel and capital outlays -- reflected in the budget document. The City Manager may, at any time, transfer any unencumbered appropriation within the budget of an office, department or agency. Transfers of appropriations between expenditure characters within the same department or agency budget must be approved by the City Manager (or his designees, the Finance Director and the Director of the Office of Management and Budget). Budget detail pages, showing the budget at the "sub-object" level are available for inspection during business hours in the Office of Management and Budget.

The City's budget follows the same basis of accounting used in preparation of the City's audited Comprehensive Annual Financial Report (CAFR), which are prepared in accordance with "Generally Accepted Accounting Principles" (GAAP) as promulgated by the Governmental Accounting Standards Board (GASB) and the Auditor of Public Accounts of the Commonwealth of Virginia (APA). The budgets of the General, Special Revenue and Capital Projects Funds is prepared on the "modified accrual" basis of accounting. Under this method of accounting, revenues are recognized in the period that they become measurable and available. With respect to real and personal property tax revenue and other local taxes, the term "available" is limited to collection within forty-five days of the fiscal year-end. Federal and State reimbursement-type grants are recorded as revenue when related eligible expenditures are incurred. The budget and financial statements of the Proprietary Funds are presented on the accrual basis of accounting. Under this method of accounting, revenues are recognized when earned and expenses are recorded when liabilities are incurred without regard to receipt or disbursement of cash.

Summary of Changes in the General Fund Budget
For the Fiscal Year ending June 30, 2002 and June 30, 2003

FY 2002 Amended General Fund Budget 350,171,550

Schools

School Board's requested increase in City General Fund support	5,063,491	
FY 2003 2.5% General Salary Adjustment	2,600,000	
Additional Pay Plan Step	397,000	
Total Schools		8,060,491

Compensation - Proposed Changes

FY 2003 2.5% General Salary Adjustment	3,750,000	
Health Insurance Adjustment	1,650,000	
Virginia Retirement Systems (VRS) Rate Reduction	-200,000	
Public Safety Pension Plan Funding	200,000	
Adjustments to City Pay Plan - Longevity Step	400,000	
Pay Overtime on an Hours - Paid Basis	365,000	
Seventh Day Double Overtime Elimination	-150,000	
Total Proposed Compensation Changes		6,015,000

Non-Personnel and Base Budget

Cash Capital Funding for CIP (Proposed budget)	1,980,000	
Cash Capital Funding - Skate Park	200,000	
Debt Service	1,467,028	
Net Increase in General Contingent to \$950,000	277,796	
State Aid Reduction Contingent	731,980	
Towing and Impound Costs	96,000	
Various Base Budget Changes Including Merit in Step Increases	1,834,318	
Total Non-Personnel Changes		6,587,122

Legislative, Executive and General Government

Part-time to Full-time, Temporary to Permanent Positions in Finance	32,337	
Additional Personnel Clerk	35,438	
New Retirement Administrator Position	80,000	
Increase in Training and Tuition Reimbursement Programs	106,000	
Human Rights Investigation Support	30,000	
Total Legislative, Executive and General Government Changes		283,775

Public Safety

Additional Ten Police Personnel and Associated Equipment	726,420	
Jail Health Services Contract	70,000	
Code Enforcement Aide to the Director	81,000	
Code Enforcement Fire System Retesting	165,410	
Additional Animal Shelter Funding	152,340	
Total Public Safety Changes		1,195,170

Health & Welfare

Expansion of the West Nile Virus Program	59,960	
DHS/Recreation Before and After School Consultant	50,000	
Child Day Care Center Rate And Fee System Eligibility Increases	80,000	
COLA for Campagna Kids Child Care Program Workers	30,000	
Vocational Services for High School Graduates with Disabilities	56,000	
Additional Funding for Arlandria Health Clinic	20,000	
Decreases Due to Declining and Flat Caseloads	<u>-1,400,000</u>	
Total Health & Welfare		-1,104,040

Community Development

Increase in Alexandria Convention and Visitors Association (ACVA)		
Funding	96,983	
Additional Division Chief Position in Planning and Zoning	100,000	
Affordable Housing Initiatives	<u>300,000</u>	
Total Community Development		496,983

Parks, Recreation and Cultural Activities

Additional Funding for the Arts Grant Program	35,000	
Funding for a Public Arts Program	25,000	
Irrigation System for King Street Gardens	<u>15,000</u>	
		75,000

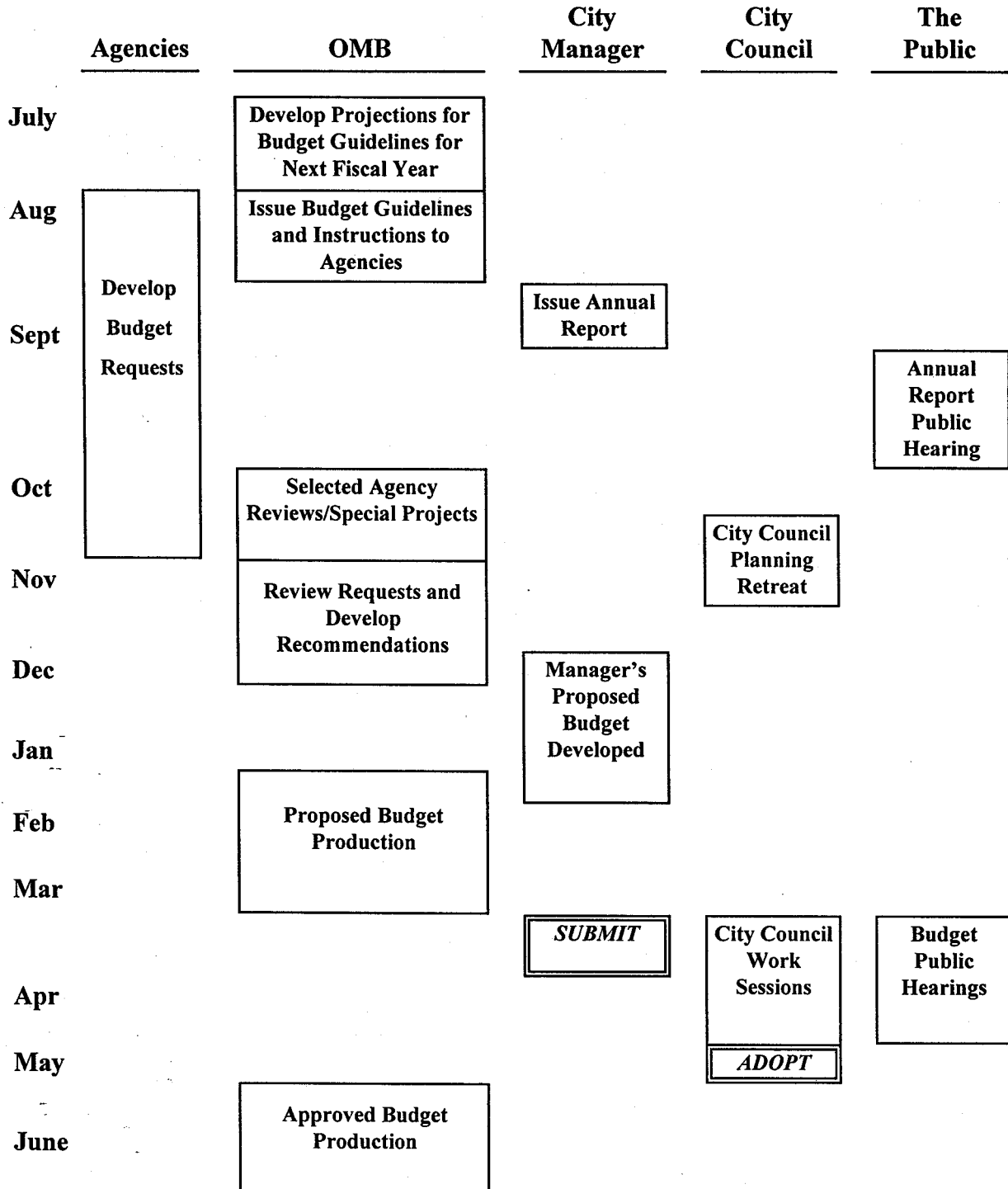
Public Works

One Inspector Overhire in T&ES Continued	48,912	
Dash Take Over of WMATA Bus Route 28C	-100,000	
Increased Transit Subsidies (WMATA, DASH, Paratransit)	1,321,261	
Continuation of the DASH About Shuttle Service	<u>120,000</u>	
Total Public Works		1,390,173

Total General Fund Changes **373,171,224**

City of Alexandria Budget Process

Fiscal Year runs from July 1 to June 30



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